

**POCAHONTAS AREA  
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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**POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT**

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**BOARD OF EDUCATION**

(Before September, 2005 Election)

Jann Ricklefs	President	2005
Jody Lyon	Vice President	2006
Thomas Nedved		2007
Dan Duitscher		2005
Jeff Kerns		2007
Timothy Cook		2005
Raymond Seehusen		2006

(After September, 2005 Election)

Raymond Seehusen	President	2006
Jeff Kerns	Vice President	2007
Thomas Nedved		2007
Dan Duitscher		2008
Jody Lyon		2006
Darwin Eaton		2008
John Behrendsen		2008

**SCHOOL OFFICIALS**

Joseph Kramer	Superintendent
Diane Pattee	District Secretary/ Treasurer

To The Board of Education of the  
Pocahontas Area Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pocahontas Area Community School District, Pocahontas, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pocahontas Area Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 20, 2006 on our consideration of Pocahontas Area Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pocahontas Area Community School District's basic financial statements. We previously audited the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**BRUCE D. FRINK**  
**Certified Public Accountant**

September 20, 2006

# POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Pocahontas Area Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$5,750,621 in fiscal 2005 to \$5,711,500 in fiscal 2006 (1% decrease), while General Fund expenditures decreased from \$5,839,678 in fiscal year 2005 to \$5,809,070 in fiscal 2006 (1% decrease).
- General Fund revenues remained steady as increased property tax and tuition revenues offset state and federal decreases. The decrease in expenditures was due primarily to decreases in salary and benefits. The General Fund balance decreased over \$97,000 in the prior fiscal year, a 6% decrease.
- An increase in interest rates resulted in an increase in interest earnings in the General Fund of over \$16,000.
- Local option sales tax revenues increased as all counties have collected a full year of revenues.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

*Figure A-1*  
*Pocahontas Area Community School District*

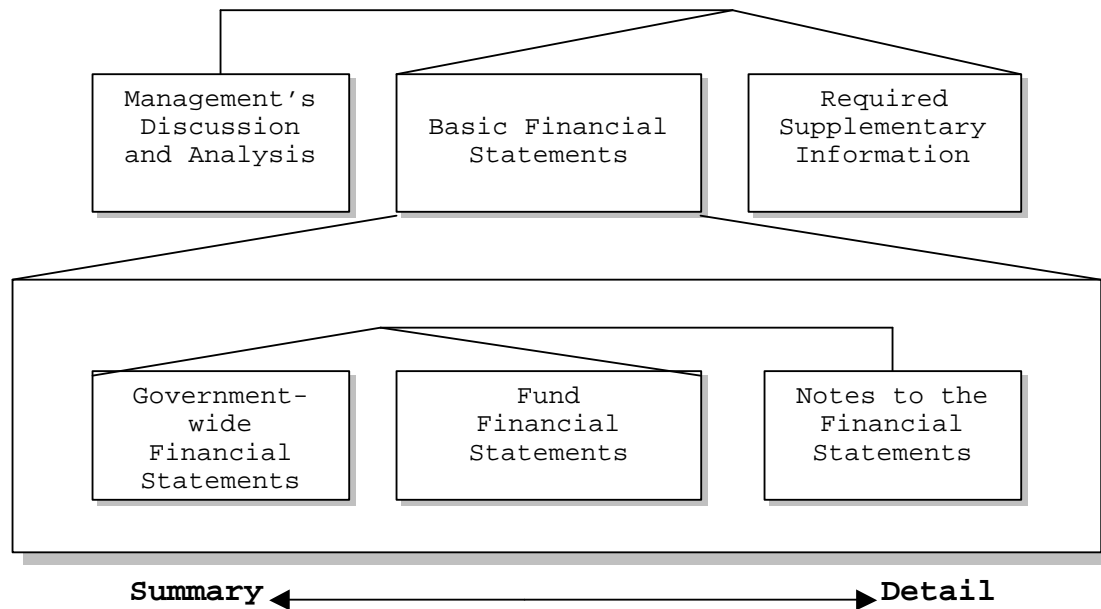


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b>				
<b>Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Fund.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net assets** - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005

Figure A-3  
Condensed Statement of Net Assets  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Current assets	5,144	4,956	24	15	5,168	4,971	3.96%
Capital assets	<u>2,161</u>	<u>2,421</u>	<u>9</u>	<u>11</u>	<u>2,170</u>	<u>2,432</u>	-10.77%
<b>Total assets</b>	<u><u>7,305</u></u>	<u><u>7,377</u></u>	<u><u>33</u></u>	<u><u>26</u></u>	<u><u>7,338</u></u>	<u><u>7,403</u></u>	-0.88%
Current liabilities	2,449	2,508	-	-	2,449	2,508	-2.35%
Non-current liabilities	<u>32</u>	<u>32</u>	<u>-</u>	<u>-</u>	<u>32</u>	<u>32</u>	0.00%
<b>Total liabilities</b>	<u><u>2,481</u></u>	<u><u>2,540</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>2,481</u></u>	<u><u>2,540</u></u>	-2.32%
Net Assets							
Invested in capital assets, net of related debt	2,161	2,421	9	11	2,170	2,432	-10.77%
Restricted	1,148	803			1,148	803	42.96%
Unrestricted	<u>1,515</u>	<u>1,613</u>	<u>24</u>	<u>15</u>	<u>1,539</u>	<u>1,628</u>	-5.47%
<b>Total net assets</b>	<u><u>4,824</u></u>	<u><u>4,837</u></u>	<u><u>33</u></u>	<u><u>26</u></u>	<u><u>4,857</u></u>	<u><u>4,863</u></u>	-0.12%

Restricted assets grew over \$645,000, primarily as a result of a full year of sales tax collections and no expenditures from that fund. Unrestricted net assets fell as a 4% allowable growth rate is inadequate to give normal salary increases and maintain programs. Capital assets decreased as depreciation expense (a non-cash item) exceed new purchases.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

**Figure A-4**  
**Change in Net Assets**  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
	\$	\$	\$	\$	\$	\$	
Revenues:							
Program revenues:							
Charges for service and sales	314	273	146	142	460	415	10.84%
Operating grants, contributions and restricted interest	1,013	1,222	125	122	1,138	1,344	-15.33%
General revenues:							
Property tax	2,389	2,272	-	-	2,389	2,272	5.15%
Local option sales tax	472	155	-	-	472	155	204.52%
Unrestricted state grants	2,437	2,522	-	-	2,437	2,522	-3.37%
Unrestricted investment earnings	60	43	-	-	60	43	39.53%
Other	<u>122</u>	<u>151</u>	<u>-</u>	<u>-</u>	<u>122</u>	<u>151</u>	<u>-19.21%</u>
Total revenues	<u>6,807</u>	<u>6,638</u>	<u>271</u>	<u>264</u>	<u>7,078</u>	<u>6,902</u>	<u>2.55%</u>
Program expenses:							
Governmental activities:							
Instruction	4,083	4,187	-	-	4,083	4,187	-2.48%
Support Services	1,895	1,901	-	-	1,895	1,901	-0.32%
Non-instructional programs	4	3	264	270	268	273	-1.83%
Other expenses	<u>838</u>	<u>774</u>	<u>-</u>	<u>-</u>	<u>838</u>	<u>774</u>	<u>8.27%</u>
Total expenses	<u>6,820</u>	<u>6,865</u>	<u>264</u>	<u>270</u>	<u>7,084</u>	<u>7,135</u>	<u>-0.71%</u>
Change in net assets	<u>(13)</u>	<u>(227)</u>	<u>7</u>	<u>(6)</u>	<u>(6)</u>	<u>(233)</u>	<u>102.58%</u>

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84% of the total expenses.

## Governmental Activities

Revenues for governmental activities were \$6,807,482 and expenses were \$6,819,995.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
**(expressed in thousands)**

	Total Cost of Services		Net Cost of Services		Net Change
	2006	2005	2006	2005	2005-06
	\$	\$	\$	\$	%
Instruction	4,083	4,187	3,032	3,167	-4.26%
Support Services	1,895	1,901	1,839	1,870	-1.66%
Noninstructional Programs	4	3	4	3	33.33%
Other expenses	<u>838</u>	<u>774</u>	<u>618</u>	<u>330</u>	<u>87.27%</u>
Totals	<u>6,820</u>	<u>6,865</u>	<u>5,493</u>	<u>5,370</u>	<u>2.29%</u>

- The cost financed by users of the District's programs was \$313,785.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$515,851.
- The net cost of governmental activities was financed with \$2,388,730 in property tax, \$2,437,395 in state foundation aid, and \$60,142 in interest income.

## Business-Type Activities

Revenues of the District's business type activities were \$271,319 and expenses were \$263,914. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Pocahontas Area Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 4,824,971, virtually no change from last year's ending fund balances of \$4,837,484.

## Governmental Fund Highlights

- The District's General Fund balance decreased due to revenues not being able to keep pace with expenses. Expenses decreased by over \$30,000 due to careful monitoring of spending.
- The District's Capital Project Fund increased as a result of the District collecting local option sales tax for a full year from all counties.

## Proprietary Fund Highlights

The District's Nutrition Fund increased primarily as a result of cost reductions.

## BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

### Legal Budgetary Highlights

The District's receipts were \$246,070 less than budgeted receipts, a variance of 3%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$2.1 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 11% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$407,954.

The original cost of the District's capital assets was \$6,426,288. Governmental funds account for \$6,390,196, with the remainder of \$36,092 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6  
Condensed Statement of Net Assets  
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Land	144	144	-	-	144	144	0.00%
Site improvements	77	92	-	-	77	92	-16.30%
Buildings	1,485	1,555	-	-	1,485	1,555	-4.50%
Furniture and equipment	455	630	9	11	464	641	-27.61%
Totals	<u>2,161</u>	<u>2,421</u>	<u>9</u>	<u>11</u>	<u>2,170</u>	<u>2,432</u>	<u>-10.77%</u>

## **Long-Term Debt**

The District has no long-term indebtedness. Early retirement payables shown on the balance sheet will be paid with proceeds of the District's Management Levy as they come due.

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District has experienced declining enrollment the past several years.
- The allowable growth rate of 4% provided by the Legislature is inadequate to meet expected cost increases.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Diane Pattee, District Secretary, Pocahontas Area Community School District, 202 1<sup>st</sup> Ave SW, Pocahontas, IA 50574-1910.

## Basic Financial Statements

## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	2,335,027	13,420	2,348,447
Receivables:			
Property tax:			
Current year	29,855	-	29,855
Succeeding year	2,345,119	-	2,345,119
Due from other governments	201,644	-	201,644
Other receivables	141,658	30	141,688
Inventory	-	10,392	10,392
Prepaid expenses	90,751	-	90,751
Capital assets, net of accumulated depreciation	2,161,336	8,998	2,170,334
<b>Total assets</b>	<b>7,305,390</b>	<b>32,840</b>	<b>7,338,230</b>
<b>Liabilities</b>			
Accounts payable	76,429	-	76,429
Accrued payroll and benefits	26,576	-	26,576
Deferred revenue:			
Succeeding year property tax	2,345,119	-	2,345,119
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	32,295	-	32,295
<b>Total liabilities</b>	<b>2,480,419</b>	<b>-</b>	<b>2,480,419</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,161,336	8,998	2,170,334
Restricted for:			
Internal services	105,077	-	105,077
Management levy	149,968	-	149,968
Student activities	82,383	-	82,383
Physical plant and equipment levy	183,579	-	183,579
Capital projects	627,412	-	627,412
Unrestricted	1,515,216	23,842	1,539,058
<b>Total net assets</b>	<b>4,824,971</b>	<b>32,840</b>	<b>4,857,811</b>

See notes to financial statements.



## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

	Program Revenues					
		Charges for	Operating Grants, Contributions and Restricted Interest	Governmental	Business Type	
	Expenses	Service		Activities	Activities	Total
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:	4,082,812	312,470	738,657	(3,031,685)	-	(3,031,685)
Support services:						
Student services	210,223	-	4,037	(206,186)	-	(206,186)
Instructional staff services	171,911	-	-	(171,911)	-	(171,911)
Administration services	660,310	-	-	(660,310)	-	(660,310)
Operation and maintenance of plant services	572,294	-	31,372	(540,922)	-	(540,922)
Transportation services	280,330	1,315	19,393	(259,622)	-	(259,622)
	1,895,068	1,315	54,802	(1,838,951)	-	(1,838,951)
Non-instructional programs:						
Community service operations	4,037	-	-	(4,037)	-	(4,037)
Other expenditures:						
AEA flowthrough	219,447	-	219,447	-	-	-
Facilities acquisition and construction	212,453	-	-	(212,453)	-	(212,453)
Depreciation (unallocated)*	406,178	-	-	(406,178)	-	(406,178)
	838,078	-	219,447	(618,631)	-	(618,631)
Total governmental activities	6,819,995	313,785	1,012,906	(5,493,304)	-	(5,493,304)

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business type activities:					
Non-instructional programs:					
Nutrition services	263,914	146,608	124,711	-	7,405
Total	7,083,909	460,393	1,137,617	(5,493,304)	7,405
					(5,485,899)
General revenues:					
Property tax levied for:					
General purposes			2,042,686	-	2,042,686
Management			159,848	-	159,848
Capital outlay			186,196	-	186,196
Local option sales tax			472,054	-	472,054
Unrestricted state grants			2,437,395	-	2,437,395
Unrestricted investment earnings			60,142	-	60,142
Other			122,470	-	122,470
Total general revenue			5,480,791	-	5,480,791
Change in net assets			(12,513)	7,405	(5,108)
Net assets beginning of year			4,837,484	25,435	4,862,919
Net assets end of year			4,824,971	32,840	4,857,811

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	1,517,902	190,160	488,741	138,224	2,335,027
Receivables:					
Property tax:					
Current year	25,519	2,333	-	2,003	29,855
Succeeding year	1,998,614	196,505	-	150,000	2,345,119
Due from other governments	62,973	-	138,671	-	201,644
Other receivables	140,285	-	-	1,373	141,658
Prepaid expenses	-	-	-	90,751	90,751
<b>Total assets</b>	<u>3,745,293</u>	<u>388,998</u>	<u>627,412</u>	<u>382,351</u>	<u>5,144,054</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	67,515	8,914	-	-	76,429
Accrued payroll and benefits	26,576	-	-	-	26,576
Deferred revenue:					
Succeeding year property tax	1,998,614	196,505	-	150,000	2,345,119
Total liabilities	<u>2,092,705</u>	<u>205,419</u>	<u>-</u>	<u>150,000</u>	<u>2,448,124</u>
Fund balances:					
Reserved for internal services	105,077	-	-	-	105,077
Reserved for capital projects	-	-	627,412	-	627,412
Unreserved	1,547,511	183,579	-	232,351	1,963,441
Total fund balances	<u>1,652,588</u>	<u>183,579</u>	<u>627,412</u>	<u>232,351</u>	<u>2,695,930</u>
<b>Total liabilities and fund balances</b>	<u>3,745,293</u>	<u>388,998</u>	<u>627,412</u>	<u>382,351</u>	<u>5,144,054</u>

See notes to financial statements.

## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$ 2,695,930
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,161,336
Long-term liabilities, including notes payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(32,295)</u>
Net assets of governmental activities (Exhibit A)	<u>\$ 4,824,971</u>

See notes to financial statements.

## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,042,686	186,196	472,054	159,848	2,860,784
Tuition	299,640	-	-	-	299,640
Other	196,757	29,324	-	248,284	474,365
State sources	2,977,535	148	-	128	2,977,811
Federal sources	194,882	-	-	-	194,882
Total revenues	<u>5,711,500</u>	<u>215,668</u>	<u>472,054</u>	<u>408,260</u>	<u>6,807,482</u>
Expenditures:					
Current:					
Instruction:	<u>3,821,202</u>	<u>-</u>	<u>-</u>	<u>261,610</u>	<u>4,082,812</u>
Support services:					
Student services	210,223	-	-	-	210,223
Instructional staff services	171,911	-	-	-	171,911
Administration services	627,631	32,679	-	-	660,310
Operation and maintenance of plant services	474,289	-	-	98,005	572,294
Transportation services	<u>280,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>280,330</u>
	<u>1,764,384</u>	<u>32,679</u>	<u>-</u>	<u>98,005</u>	<u>1,895,068</u>
Non-instructional programs:					
Community service operations	<u>4,037</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,037</u>
Other expenditures:					
AEA flowthrough	219,447	-	-	-	219,447
Facilities acquisition and construction	<u>-</u>	<u>359,164</u>	<u>-</u>	<u>-</u>	<u>359,164</u>
	<u>219,447</u>	<u>359,164</u>	<u>-</u>	<u>-</u>	<u>578,611</u>
Total expenditures	<u>5,809,070</u>	<u>391,843</u>	<u>-</u>	<u>359,615</u>	<u>6,560,528</u>
Excess (deficiency) of revenues over (under) expenditures	(97,570)	(176,175)	472,054	48,645	246,954
Fund balances beginning of year	<u>1,750,158</u>	<u>359,754</u>	<u>155,358</u>	<u>183,706</u>	<u>2,448,976</u>
Fund balances end of year	<u>1,652,588</u>	<u>183,579</u>	<u>627,412</u>	<u>232,351</u>	<u>2,695,930</u>

See notes to financial statements.

## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds  
 to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ 246,954

Amounts reported for governmental activities in the  
 statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 146,711	
Depreciation expense	<u>(406,178)</u>	<u>(259,467)</u>

Change in net assets of governmental activities (Exhibit B) \$ (12,513)

See notes to financial statements.

## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>146,608</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	62,025
Benefits	31,820
Supplies	168,293
Depreciation	<u>1,776</u>
Total operating expenses	<u>263,914</u>
Operating (loss)	<u>(117,306)</u>
Non-operating revenues:	
State sources	3,718
Federal sources	120,476
Interest income	<u>517</u>
	<u>124,711</u>
Changes in net assets	7,405
Net assets beginning of year	<u>25,435</u>
Net assets end of year	<u><u>32,840</u></u>

See notes to financial statements.

## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

## Statement of Cash Flows

## Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	146,578
Cash payments to employees for services	(93,845)
Cash payments to suppliers for goods or services	(144,232)
Net cash (used in) operating activities	(91,499)
Cash flows from non-capital financing activities:	
State grants received	3,718
Federal grants received	95,170
Net cash provided by non-capital financing activities	98,888
Cash flows from investing activities:	
Interest on investments	517
Net (decrease) in cash and cash equivalents	7,906
Cash and cash equivalents beginning of year	5,514
Cash and cash equivalents end of year	13,420
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>	
Operating (loss)	(117,306)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	1,776
(Increase) in other receivables	(30)
Commodities used	25,306
(Increase) in inventory	(1,245)
	(91,499)
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>	
Current assets:	
Cash	13,420
<b>Non-cash investing, capital and financing activities:</b>	

During the year ended June 30, 2006, the District received federal commodities valued at \$25,306.

See notes to financial statements.



POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2006

	Scholarship Fund
	<u>\$</u>
<b>Assets</b>	
Cash and pooled investments	<u>10,908</u>
<b>Total assets</b>	<u>10,908</u>
<b>Net Assets</b>	
Reserved for scholarships	<u><u>10,908</u></u>

See notes to financial statements.

## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Fund
	<u>\$</u>
Additions:	
Local sources:	
Miscellaneous	<u>10,816</u>
Total additions	<u>10,816</u>
Deductions:	
Support services:	
Scholarships	<u>1,075</u>
Change in net assets	9,741
Net assets beginning of year	<u>1,167</u>
Net assets end of year	<u><u>10,908</u></u>

See notes to financial statements.

## POCHONTAS AREA COMMUNITY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2006

#### (1) Summary of Significant Accounting Policies

Pocahontas Area Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Pocahontas, Rolfe, Havelock & Plover, Iowa, and agricultural territory in Pocahontas and Palo Alto Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

##### A. Reporting Entity

For financial reporting purposes, Pocahontas Area Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Pocahontas Area Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pocahontas County Assessor's Conference Board.

##### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

## E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

### **(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

### **(3) Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>143,945</u>	<u>-</u>	<u>-</u>	<u>143,945</u>
Capital assets being depreciated:				
Site Improvements	319,354	-	-	319,354
Buildings	3,445,085	-	-	3,445,085
Furniture and Equipment	<u>2,335,101</u>	<u>146,711</u>	<u>-</u>	<u>2,481,812</u>
Total capital assets being depreciated	<u>6,099,540</u>	<u>146,711</u>	<u>-</u>	<u>6,246,251</u>
Less accumulated depreciation for:				
Site Improvements	226,595	15,968	-	242,563
Buildings	1,891,261	68,902	-	1,960,163
Furniture and Equipment	<u>1,704,826</u>	<u>321,308</u>	<u>-</u>	<u>2,026,134</u>
Total accumulated depreciation	<u>3,822,682</u>	<u>406,178</u>	<u>-</u>	<u>4,228,860</u>
Total capital assets being depreciated, net	<u>2,276,858</u>	<u>(259,467)</u>	<u>-</u>	<u>2,017,391</u>
Governmental activities, capital assets, net	<u>2,420,803</u>	<u>(259,467)</u>	<u>-</u>	<u>2,161,336</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	36,092	0	-	36,092
Less accumulated depreciation	<u>25,318</u>	<u>1,776</u>	<u>-</u>	<u>27,094</u>
Business type activities capital assets, net	<u>10,774</u>	<u>(1,776)</u>	<u>-</u>	<u>8,998</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				<u>406,178</u>
				<u>406,178</u>
Business Type activities				
Food service operations				<u>1,776</u>
				<u>1,776</u>

**(4) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$206,881, \$207,021, and \$208,602 respectively, equal to the required contributions for each year.

**(5) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$219,447 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(6) Commitment**

The District accepted bids totaling \$64,545 for a boiler and asbestos removal. The District has also agreed to a transfer of property to the City of Rolfe.



## Required Supplementary Information

**POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive
	Actual	Actual	Actual	Original	Final	(Negative)
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,634,789	147,125	3,781,914	3,707,671	3,707,671	74,243
State sources	2,977,811	3,718	2,981,529	3,267,200	3,267,200	(285,671)
Federal sources	194,882	120,476	315,358	350,000	350,000	(34,642)
Total revenues	<u>6,807,482</u>	<u>271,319</u>	<u>7,078,801</u>	<u>7,324,871</u>	<u>7,324,871</u>	<u>(246,070)</u>
Expenditures:						
Instruction	4,082,812	-	4,082,812	5,697,669	5,697,669	1,614,857
Support services	1,895,068	-	1,895,068	2,429,000	2,429,000	533,932
Non-instructional programs	4,037	263,914	267,951	377,639	377,639	109,688
Other expenditures	578,611	-	578,611	1,100,359	1,100,359	521,748
Total expenditures	<u>6,560,528</u>	<u>263,914</u>	<u>6,824,442</u>	<u>9,604,667</u>	<u>9,604,667</u>	<u>2,780,225</u>
Excess (deficiency) of revenues over (under) expenditures	246,954	7,405	254,359	(2,279,796)	(2,279,796)	2,534,155
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	246,954	7,405	254,359	(2,289,796)	(2,289,796)	2,534,155
Balance beginning of year	<u>2,448,976</u>	<u>25,435</u>	<u>2,474,411</u>	<u>2,307,582</u>	<u>2,307,582</u>	<u>166,829</u>
Balance end of year	<u><u>2,695,930</u></u>	<u><u>32,840</u></u>	<u><u>2,728,770</u></u>	<u><u>17,786</u></u>	<u><u>17,786</u></u>	<u><u>2,700,984</u></u>

See accompanying independent auditor's report.

**POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT**

**Notes to Required Supplementary Information - Budgetary Reporting**

**Year ended June 30, 2006**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures did not exceed the amount budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

## Other Supplementary Information

## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Special Revenue Funds

June 30, 2006

	Management	Student Activity	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	56,819	81,405	138,224
Property tax receivable:			
Current year	2,003	-	2,003
Succeeding year	150,000	-	150,000
Other receivables	395	978	1,373
Prepaid expenses	90,751	-	90,751
Total assets	299,968	82,383	382,351
<b>Liabilities and Fund Balance</b>			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	150,000	-	150,000
	150,000	-	150,000
Fund balance:			
Unreserved fund balance	149,968	82,383	232,351
	149,968	82,383	232,351
Total liabilities and fund balance	299,968	82,383	382,351

See accompanying independent auditor's report.

## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	<u>Management</u>	<u>Student</u> <u>Activity</u>	<u>Total</u>
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	159,848	-	159,848
Other	1,772	246,512	248,284
State sources	<u>128</u>	<u>-</u>	<u>128</u>
Total revenues	<u>161,748</u>	<u>246,512</u>	<u>408,260</u>
Expenditures:			
Instruction:	35,791	225,819	261,610
Support services:			
Student services	-	-	-
Administration services	-	-	-
Plant operation and maintenance	98,005	-	98,005
Student transportation	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>133,796</u>	<u>225,819</u>	<u>359,615</u>
Excess of revenues over expenditures	27,952	20,693	48,645
Fund balances beginning of year	<u>122,016</u>	<u>61,690</u>	<u>183,706</u>
Balance end of year	<u><u>149,968</u></u>	<u><u>82,383</u></u>	<u><u>232,351</u></u>

See accompanying independent auditor's report.

## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Concessions	-	294	294	-
Computer Supplies	717	-	-	717
Graduated Classes	3,636	-	-	3,636
Class of 2005	2,144	-	675	1,469
Class of 2006	3,784	5	2,111	1,678
Class of 2007	570	16,047	13,353	3,264
Class of 2008	307	431	239	499
Class of 2009	-	380	139	241
Towel Fee	697	-	-	697
Locker Rent	2,746	190	370	2,566
Board of Education	123	892	1,008	7
Mock Trial	2,525	470	1,539	1,456
Pop/Juice Rolfe Center	28	428	428	28
Pop/Juice - Vending	1,418	14,581	14,179	1,820
Restroom - Vending	182	-	-	182
Administrative Resale	210	-	149	61
Vocal Music	2,433	2,133	2,839	1,727
Instrumental Music	944	7,579	6,250	2,273
Band Uniforms	673	450	1,034	89
Band Insurance	686	-	-	686
Drill Team	1,238	9,900	11,018	120
Cheerleader Trip Fund	290	-	-	290
Football	-	17,048	17,048	-
Activity Trips	208	-	-	208
Cheerleaders	108	5,948	2,808	3,248
Weight Training	187	-	-	187
Golf	-	2,579	2,579	-
Basketball	-	14,107	14,107	-
Boys Basketball Camp	192	5,411	4,447	1,156
Volleyball	-	2,982	2,949	33
Softball/Baseball	180	12,287	11,967	500
Softball Trips	643	1,002	1,458	187
Track	20	7,235	7,255	-
Track Trip - Boys	980	-	255	725
Track Trip - Girls	1,721	475	150	2,046
Cross Country	-	1,404	1,198	206
Wrestling	-	5,926	5,926	-
Activity Tickets	-	8,602	8,602	-
Activity Tickets/Senior Citizens	702	120	-	822
Volleyball Mothers	-	50	50	-
Wrestling Mothers	3,945	5,418	4,708	4,655
Football Camp	332	4,256	2,313	2,275
Athletic Resale	546	-	24	522
Volleyball Camp	448	285	346	387

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
District Football	-	165	165	-
Marketing Class	108	-	-	108
Cross Country Special Fund	-	1,209	1,209	-
Trading Post Store	2,108	20,961	21,020	2,049
JH Student Council	889	-	150	739
Science Club	47	-	-	47
Art Club	433	-	58	375
Mystery Photo Contest	50	-	-	50
Student Council	-	1,040	1,040	-
FFA	-	21,335	21,019	316
Home Ec Club	42	207	196	53
Home Ec Resale	137	376	353	160
Spanish Club	192	-	-	192
Annual	2,052	10,695	10,408	2,339
Softball Concessions	-	10,324	1,484	8,840
Baseball Concessions	-	10,462	2,439	8,023
Newspaper	7	-	-	7
Dramatics	1,018	1,037	1,551	504
National Honor Society	99	-	77	22
Baseball Mothers	6,011	565	2,944	3,632
Jr High Math	93	-	-	93
Softball Parents	2,939	811	487	3,263
Elementary Sunshine Fund	-	579	352	227
Energy and Power Class	300	-	-	300
Swing Choir	251	-	-	251
Mentoring Program	50	-	5	45
Task Force Fund	4	673	670	7
MS Fund	-	495	436	59
MS Concessions	-	2,517	1,582	935
Jump Rope for Heart	1,008	1,676	1,825	859
HS Take Charge for Education	215	958	659	514
Special Education	43	-	-	43
MS Take Charge for Education	211	1,656	1,702	165
Carnival	3,185	1,036	2,251	1,970
After Prom Party	1,035	6,786	6,901	920
Interest	3,600	2,034	1,021	4,613
	<hr/>	<hr/>	<hr/>	<hr/>
Total	61,690	246,512	225,819	82,383
	<hr/>	<hr/>	<hr/>	<hr/>

See accompanying independent auditor's report.



## POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

## Comparison of Taxes and Intergovernmental Revenues

## All Governmental Funds

		Modified Accrual Basis			
		2006	2005	2004	2003
		\$	\$	\$	\$
Local sources:					
General		2,042,686	1,991,590	2,207,600	2,145,756
Special revenue		346,044	280,637	309,574	335,247
Capital projects		472,054	155,358	-	-
		<u>2,860,784</u>	<u>2,427,585</u>	<u>2,517,174</u>	<u>2,481,003</u>
State sources:					
General		2,977,535	3,044,003	2,770,389	2,891,496
Special revenue		276	232	527	1,881
		<u>2,977,811</u>	<u>3,044,235</u>	<u>2,770,916</u>	<u>2,893,377</u>
Federal sources:					
General		194,882	205,155	208,871	259,370
Special revenue		-	41,714	-	-
		<u>194,882</u>	<u>246,869</u>	<u>208,871</u>	<u>259,370</u>
Total		<u><u>6,033,477</u></u>	<u><u>5,718,689</u></u>	<u><u>5,496,961</u></u>	<u><u>5,633,750</u></u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

To the Board of Education of the  
Pocahontas Area Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Pocahontas Area Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Pocahontas Area Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pocahontas Area Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pocahontas Area Community School District and other parties to whom Pocahontas Area Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pocahontas Area Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

**BRUCE D. FRINK**  
**Certified Public Accountant**

September 20, 2006

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

**Part I: Findings Related to the General Purpose Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

06-I-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We have noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will investigate possible alternatives to this situation.

Conclusion - Response accepted.

**Part II: Other Findings Related to Required Statutory Reporting:**

06-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-II-B Certified Budget - Expenditures for the year ended June 30, 2006, did not exceed the amounts budgeted.

06-II-C Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

06-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

06-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.

06-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

**Part II: Other Findings Related to Required Statutory Reporting:**  
**(continued):**

- 06-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 06-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 06-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 06-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.